

### Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

Local Unit of Government Type <input type="checkbox"/> County <input type="checkbox"/> City <input type="checkbox"/> Twp <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Unit Name MOA SOLID WASTE MGMT AUTHORITY	County MONTMORENCY
Fiscal Year End 12/31/06	Opinion Date 06/21/07	Date Audit Report Submitted to State 06/26/07	

We affirm that:

We are certified public accountants licensed to practice in Michigan.

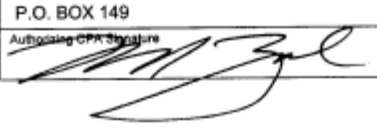
We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).

**Check each applicable box below.** (See instructions for further detail.)

1. ☒ ☐ All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
2. ☒ ☐ There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
3. ☒ ☐ The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
4. ☒ ☐ The local unit has adopted a budget for all required funds.
5. ☒ ☐ A public hearing on the budget was held in accordance with State statute.
6. ☒ ☐ The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
7. ☒ ☐ The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
8. ☒ ☐ The local unit only holds deposits/investments that comply with statutory requirements.
9. ☐ ☒ The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
10. ☒ ☐ There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
11. ☐ ☒ The local unit is free of repeated comments from previous years.
12. ☒ ☐ The audit opinion is UNQUALIFIED.
13. ☒ ☐ The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
14. ☒ ☐ The board or council approves all invoices prior to payment as required by charter or statute.
15. ☒ ☐ To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

<b>We have enclosed the following:</b>	Enclosed	Not Required (enter a brief justification)	
Financial Statements	<input checked="" type="checkbox"/>		
The letter of Comments and Recommendations	<input checked="" type="checkbox"/>		
Other (Describe)	<input type="checkbox"/>		
Certified Public Accountant (Firm Name) THOMAS R ZICK CPA, P.C.		Telephone Number 989-786-4032	
Street Address P.O. BOX 149		City LEWISTON	State MI
		Zip 49756	
Auditing CPA Signature 		Printed Name THOMAS R. ZICK	
		License Number 1101007478	

MONTMORENCY-OSCODA-ALPENA  
SOLID WASTE MANAGEMENT AUTHORITY  
BASIC FINANCIAL STATEMENTS  
YEAR ENDED DECEMBER 31, 2006

**MONTMORENCY-OSCODA-ALPENA  
SOLID WASTE MANAGEMENT AUTHORITY**

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**Thomas R. Zick CPA, P.C.**  
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### **INDEPENDENT AUDITOR'S REPORT**

June 21, 2007

Montmorency-Oscoda-Alpena  
Solid Waste Management Authority  
Board of Directors  
Atlanta, Michigan 49709

I have audited the accompanying financial statements of Montmorency-Oscoda-Alpena Solid Waste Management Authority, a component unit of Montmorency County, as of and for the years ended December 31, 2006 and 2005, as listed in the table of contents. These financial statements are the responsibility of the Authority's management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. I believe that my audit provides a reasonable basis for my opinion.

As discussed in Note A, the financial statements present only the Montmorency-Oscoda-Alpena Solid Waste Management Authority do not purport to, and do not, present fairly the financial position of Montmorency County, Michigan as of December 31, 2006 and 2005, and the changes in its financial position, or, where applicable, its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In my opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Montmorency-Oscoda-Alpena Solid Waste Management Authority as of December 31, 2006 and 2005, and the results of its operations and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

My audit was made for the purpose of forming an opinion on the component unit financial statements taken as a whole. The accompanying financial information listed as Supplementary Information in the Table of Contents is presented for purposes of additional analysis and is not a required part of the component unit financial statements of the Montmorency-Oscoda-Alpena Solid Waste Management Authority. Such information has been subjected to the auditing procedures applied in the audit of the component unit financial statements, and in my opinion, is fairly stated, in all material respects, in relation to the component unit financial statements, taken as a whole.

The management's discussion and analysis on pages 3-5 is not a required part of the basic financial statements, but is supplementary information required by the Governmental Accounting Standards Board. I have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, I did not audit the information and express no opinion on it.

A handwritten signature in black ink, appearing to read "Thomas R. Zick, CPA, P.C.", written in a cursive style.

THOMAS R. ZICK CPA, P.C.  
Certified Public Accountant

# **MONTMORENCY-OSCODA-ALPENA SOLID WASTE MANAGEMENT AUTHORITY**

## **MANAGEMENT DISCUSSION AND ANALYSIS**

Our discussion and analysis of the Montmorency-Oscoda-Alpena Solid Waste Management Authority's financial performance provides an overview of the Authority's financial activities for the year ended December 31, 2006. Please read it in conjunction with the financial statements, which begin on page 6.

### **FINANCIAL HIGHLIGHTS**

The Authority's net assets were reported for the first time under GASB 34 as of December 31, 2004. There were no significant changes to the Authority's financial statements other than changing the classification of retained earnings to net assets. Comparative numbers for the year ended December 31, 2005 are shown using the GASB 34 format.

Net assets for the Authority as a whole were reported at \$1,889,258 which was an increase of \$201,669 from 2005. Net assets are comprised of 100% business-type activities.

During the year, the Authority's total expenses were \$2,014,630 while revenues from all sources totaled \$2,216,299 resulting in an increase in net assets of \$201,669.

### **USING THIS ANNUAL REPORT**

This annual report consists of a series of financial statements. The Statement of Net Assets and the Statement of Revenues, Expenses and Changes in Net Assets provide information about the activities of the Authority as a whole and present a longer term view of the Authority's finances.

#### **Reporting the Facility as a Whole**

One of the most important questions asked about the Authority's finances is "Is the Authority as a whole better off or worse off as a result of the year's activities?" The Statement of Net Assets and the Statement of Revenues, Expenses and Changes in Net Assets report information about the Authority as a whole and about its activities in a way that helps answer this question. These statements include *all* assets and liabilities using the *accrual basis of accounting*, which is similar to the accounting used by most private-sector companies. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid. These two statements report the Authority's *net assets* and changes in them. You can think of the authority's net assets – the difference between assets and liabilities – as one way to measure the Authority's financial health, or *financial position*. Over time, *Increases or decreases* in the Authority's net assets are one indicator whether its *financial health* is improving or deteriorating. You will need to consider other non-financial factors, however, such as changes in the Authority's operating base and the condition of the authority's capital assets, to assess the *overall financial health* of the Authority.

In the Statement of Net Assets and the Statement of Revenues, Expenses and changes in Net Assets, we report all of the Authority's activities as business-type activities because the Authority charges a fee to users to help it cover the cost of services it provides.

## MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

Table I provides a summary of the Authority's net assets as of December 31, 2006 and 2005

Table 1 Net Assets		12/31/06	12/31/05
Current and other assets - including restricted		\$ 4,382,720	\$ 4,218,469
Capital assets, net of depreciation		<u>1,924,803</u>	<u>1,667,486</u>
Total Assets		<u>6,307,523</u>	<u>5,885,955</u>
Current liabilities		446,519	334,276
Noncurrent liabilities		<u>3,971,746</u>	<u>3,864,090</u>
Total Liabilities		4,418,265	4,198,366
Net Assets:			
Invested in capital assets (net of debt)		1,442,760	876,484
Unrestricted		<u>446,498</u>	<u>811,105</u>
Total Net Assets		<u>\$ 1,889,258</u>	<u>\$ 1,687,589</u>

Net Assets of the Authority's business-type activities were at \$1,889,258 and \$1,687,589 at December 31, 2006 and 2005 respectively. Unrestricted net assets – the part of net assets that could be used to finance day to day activities were at \$446,498 and \$811,105 respectively.

The results of this year's operations for the authority as a whole are reported in the Statement of Revenues, Expenses and changes in Net Assets (see Table 2), which shows the changes in net assets for fiscal year 2006 and 2005.

Table 2 Changes in Net Assets		12/31/06	12/31/05
Operating revenues:			
Service revenues		\$ 1,863,415	\$ 1,710,603
Operating expenses:			
Operations		1,987,950	1,155,222
Nonoperating Revenues (Expenses):			
Investment Income		156,408	117,809
Interest Expense		(26,680)	(35,667)
Gain on Disposition of Fixed Asset		<u>196,476</u>	<u>-</u>
Total Nonoperating Revenues (expenses)		326,204	82,142
Increase (decrease) in net assets		201,669	637,523
Net Assets, Beginning		<u>1,687,589</u>	<u>1,050,066</u>
Net Assets, Ending		<u>\$ 1,889,258</u>	<u>\$ 1,687,589</u>

## **MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)**

The Authority's total revenues were \$2,216,299 for 2006. The total cost of all programs and services was \$2,014,630 leaving an increase in net assets of \$201,669 as a result of fiscal year 2006 operations.

### **CAPITAL ASSET AND DEBT ADMINISTRATION**

#### **Capital Assets**

At the end of fiscal 2006, the Authority had capital assets of \$7,844,416 at cost with accumulated depreciation of \$5,919,613 invested in a variety of capital assets including land, buildings, and other equipment. This resulted in net capital assets of \$1,924,803 which is a increase of \$257,317 from 2005. Capital additions for 2006 were \$793,056.

#### **Debt**

The Authority has outstanding debt at December 31, 2006 in the form of bonds in the amount of \$175,000 and equipment installment loans totaling \$307,043. This was a decrease of \$308,959 from 2005.

### **ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS**

In preparing the budget for the year ending December 31, 2007 the Authority anticipates construction of a new landfill cell, and has budgeted \$600,000. Clay capping is also budgeted in the total amount of \$50,000. Additionally, the 2007 budget plans include \$254,000 for the upgrade of County Road 487.

In January of 2006, the Authority took over the operation of the Resource Recovery program from the Northeast Michigan Recycling Alliance authority. The absorption of this program included ownership of the building located on M-32 East in Alpena and all revenues and expenses of the program. A total of \$159,000 was allocated to the program in 2006.

The Authority intends to continue its support of the Resource Recovery Program as established in January of 2006. A total allocation of \$50,000 has been budgeted for fiscal year 2007.

### **CONTACTING THE AUTHORITY FINANCIAL MANAGEMENT**

This financial report is designated to provide our taxpayers, users and creditors with a general overview of the authority's finances and to show the Authority's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Authority Administrator at Montmorency-Ocsoda-Alpena Solid Waste Management Authority, 6751 Landfill Road, Atlanta, MI 49709. Their phone number is 989-786-6500.



**MONTMORENCY-OSCODA-ALPENA  
SOLID WASTE MANAGEMENT AUTHORITY  
COMPARATIVE STATEMENT OF NET ASSETS  
DECEMBER 31, 2006 AND 2005**

ASSETS	12/31/06	12/31/05
Current Assets:		
Cash demand and time deposits / imprest cash	\$ 89,489	\$ 139,677
Investments	2,065,062	1,986,136
Restricted cash	2,041,946	1,928,884
Prepaid expenses	904	2,454
Accounts receivable - (net of reserve for bad debts)	185,319	161,318
Total Current Assets	4,382,720	4,218,469
Property, Plant, and Equipment:		
Land	164,561	164,561
Landfill improvements/buildings	6,079,625	5,805,713
Equipment	1,600,230	1,510,953
Less: accumulated depreciation	(5,919,613)	(5,813,741)
Net Property, Plant, and Equipment	1,924,803	1,667,486
Total Assets	6,307,523	5,885,955
LIABILITIES AND FUND EQUITY		
Current Liabilities:		
Accounts payable	43,572	22,936
Accrued expenses	9,036	16,213
Current portion of long-term debt	393,911	295,127
Total Current Liabilities	446,519	334,276
Long-Term Liabilities:		
Installment notes payable	307,043	451,002
Bond payable	175,000	340,000
Less current portion	(393,911)	(295,127)
Estimated liability for landfill closure and post closure care costs	3,883,614	3,368,215
Total Long-Term Liabilities	3,971,746	3,864,090
Total Liabilities	4,418,265	4,198,366
Net Assets		
Retained Earnings:		
Invested in capital assets (net of related debt)	1,442,760	876,484
Unrestricted	446,498	811,105
Net Assets	\$ 1,889,258	\$ 1,687,589

See Notes to Financial Statements

**MONTMORENCY-OSCODA-ALPENA  
SOLID WASTE MANAGEMENT AUTHORITY  
COMPARATIVE STATEMENT OF REVENUE, EXPENSES AND CHANGES IN NET ASSETS  
DECEMBER 31, 2006 AND 2005**

	<u>12/31/06</u>	<u>12/31/05</u>
Operating Revenue:		
Charges for services - Landfill	\$ 1,768,350	\$ 1,710,603
Charges for services - Resource Recovery	52,765	-
Other	<u>42,300</u>	<u>-</u>
Total Operating Revenue	<u>1,863,415</u>	<u>1,710,603</u>
Operating Expenses:		
Salaries and wages	234,252	171,151
Fringe benefits	131,277	114,153
Other operating expenses	627,297	327,928
Supplies	97,509	64,868
Depreciation	382,216	369,844
Landfill closure and post closure care costs	<u>515,399</u>	<u>107,278</u>
Total Operating Expenses	<u>1,987,950</u>	<u>1,155,222</u>
Operating Income (Loss)	<u>(124,535)</u>	<u>555,381</u>
Nonoperating Revenue (Expenses):		
Interest revenue	156,408	117,809
Interest expense	(26,680)	(35,667)
Gain on disposition of capital asset	<u>196,476</u>	<u>-</u>
Total Nonoperating Revenue (Expenses)	<u>326,204</u>	<u>82,142</u>
Increase (Decrease) in Net Assets	201,669	637,523
Total Net Assets - January 1	<u>1,687,589</u>	<u>1,050,066</u>
Total Net Assets - December 31	<u>\$ 1,889,258</u>	<u>\$ 1,687,589</u>

See Notes to Financial Statements

**MONTMORENCY-OSCODA-ALPENA  
SOLID WASTE MANAGEMENT AUTHORITY  
COMPARATIVE STATEMENT OF CASH FLOWS  
DECEMBER 31, 2006 AND 2005**

	<u>12/31/06</u>	<u>12/31/05</u>
Cash Flows From Operating Activities:		
Cash received from customers	\$ 1,839,414	\$ 1,728,556
Cash payments for goods and services	(704,170)	(401,915)
Cash payments to employees for services/fringes	<u>(368,777)</u>	<u>(284,258)</u>
Net Cash Provided (Used) by Operating Activities	<u>766,467</u>	<u>1,042,383</u>
Cash Flows From Capital and Related Financing Activities:		
Acquisition of capital assets	(793,056)	(42,889)
Interest paid on equipment loans and bond debt	(29,060)	(37,688)
Principal paid on long-term debt	(436,311)	(274,439)
Proceeds from long-term debt	127,352	-
Proceeds from disposition of capital assets	<u>350,000</u>	<u>-</u>
Net Cash Provided (Used) by Capital and Related Financing Activities	<u>(781,075)</u>	<u>(355,016)</u>
Cash Flows From Investing Activities:		
Interest on investments	156,408	129,241
Increase in restricted cash	<u>(113,062)</u>	<u>(123,973)</u>
Net Cash Provided (Used) by Investing Activities	<u>43,346</u>	<u>5,268</u>
Net Increase (Decrease) in Cash and Cash Equivalents	28,738	692,635
Cash and Cash Equivalents - Beginning of Year	<u>2,125,813</u>	<u>1,433,178</u>
Cash and Cash Equivalents - End of Year	<u><u>\$ 2,154,551</u></u>	<u><u>\$ 2,125,813</u></u>

See Notes to Financial Statements

**MONTMORENCY-OSCODA-ALPENA  
SOLID WASTE MANAGEMENT AUTHORITY  
COMPARATIVE STATEMENT OF CASH FLOWS (CONTINUED)  
DECEMBER 31, 2006 AND 2005**

	<u>12/31/06</u>	<u>12/31/05</u>
Reconciliation of Operating Income to Net Cash		
Provided (Used) by Operating Activities:		
Operating Income	\$ (124,535)	\$ 555,381
Adjustments to Reconcile Operating Income to Net Cash		
Provided by Operating Activities:		
Depreciation	382,216	369,844
Change in Assets and Liabilities		
(Increase) Decrease in Accounts Receivable	(24,001)	17,953
Increase (Decrease) in Accounts Payable	20,636	(9,119)
Increase (Decrease) in Accrued Liabilities	<u>512,151</u>	<u>108,324</u>
Net Cash Provided (Used) by Operating Activities	<u>\$ 766,467</u>	<u>\$ 1,042,383</u>

See Notes to Financial Statements

**MONTMORENCY-OSCODA-ALPENA  
SOLID WASTE MANAGEMENT AUTHORITY  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2006**

**NOTE A - NATURE OF BUSINESS AND SIGNIFICANT ACCOUNTING POLICIES**

The Montmorency-Oscoda-Alpena Solid Waste Management Authority is a component unit of Montmorency County and is reported in the County financial report as a discretely presented component unit. The accompanying financial statements and additional information present only data for the component unit. It does not present the statements of the oversight unit, which is Montmorency County, Michigan, whose financial statements are presented in a separate report.

The Montmorency-Oscoda-Alpena Solid Waste Management Authority was incorporated during 1998, with by-laws adopted effective August 5, 1998. The Authority is the successor entity to a joint venture between Montmorency and Oscoda Counties and is considered a component unit of Montmorency County which, under GASB #14 is discretely presented as a proprietary(enterprise) fund type. The Authority was incorporated under the provisions of Act No. 233 of 1955 and was created by the counties of Montmorency, Oscoda, and Alpena. The registered office is the Office of the Treasurer of Montmorency County. Each entity appoints two representatives to the Authority Board, one of whom shall be a member of the legislative body of the municipality. The other appointed individual may, but need not be a member of the legislative body of the municipality. The Authority operates a landfill and resource recovery operation.

The Authority articles of incorporation specifically stated its intention to assume the assets and liabilities of the joint venture between Montmorency and Oscoda County. In the event of dissolution the assets of the Authority shall be sold and the balance equally divided among the municipalities.

The employees of the Authority participate in all of the fringe benefit programs that Montmorency county employees are offered and information shown in subsequent notes to these financial statements cover Authority Board employees along with the general county employees. The Authority has its own account with the retirement program as further described in Note E.

Basis of Presentation – The financial statements have been prepared in accordance with generally accepted accounting principles as prescribed by Governmental Accounting Standards Board (GASB) in statement No. 34., Basic Financial Statements – and Managements’ discussion and Analysis – for State and Local Governments, issued June 1999. The Authority now follows the “business-type” activities reporting requirements of GASB No. 34. There was no impact to the net assets of the Authority in adopting GASB No. 34. The Authority has been a full accrual enterprise fund and therefore has prepared its financial fund statements on this basis since inception. The only changes were to add Managements’ discussion and Analysis and changing retained earnings to net assets and increase in net assets.

Use of Estimates – The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures in the financial statements. An example of an estimate would be the liability for landfill closure and post closure costs. Actual results could differ from these estimated amounts.

Cash and Cash Equivalents - Cash and cash equivalents include investments in highly liquid instruments with an original maturity of three months or less. It does not include restricted cash or restricted investments.

Property and Equipment - All property and equipment is valued at historical cost. Depreciation is computed using the straight-line method with the expense being charged against operations over their estimated useful lives.

**MONTMORENCY-OSCODA-ALPENA  
SOLID WASTE MANAGEMENT AUTHORITY  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2006**

**NOTE B - CASH AND INVESTMENTS**

The Authority's deposits and investments are shown in the accompanying balance sheet under the following classifications:

	<u>12/31/06</u>	<u>12/31/05</u>
Imprest cash	\$ 500	\$ 500
Cash and time deposits	88,989	139,177
Investments	2,065,062	1,986,136
Restricted cash	<u>2,041,946</u>	<u>1,928,884</u>
Total	<u>\$ 4,196,497</u>	<u>\$ 4,054,697</u>

The above amounts are classified by Governmental Accounting Standards Board Statement Number 3 in the following categories:

	<u>12/31/06</u>	<u>12/31/05</u>
Bank deposits - with County Treasurer	\$ 2,130,935	\$ 2,068,061
Imprest cash	500	500
Investments	<u>2,065,062</u>	<u>1,986,136</u>
Total	<u>\$ 4,196,497</u>	<u>\$ 4,054,697</u>

Bank deposits - at County - The funds are under the control of the County Treasurer who has deposited those funds with a federally insured depository. It is impractical to determine the amount covered by FDIC Insurance, if any, as these funds are only a portion of the total County deposits.

Investments - The County is authorized by Michigan Public Act 20 of 1943 (as amended) to invest surplus funds in U.S. Bonds and Notes, certain commercial paper, bankers acceptances, and mutual fund investment pools that are comprised of authorized investments. The County Treasurer invests those funds on behalf of the Authority. At December 31, 2006 all of the Authority investments consisted of a bank municipal investment fund and were authorized under state statute. At December 31, 2006, and 2005 investments were categorized as follows:

Investment summary:	<u>12/31/06</u>	<u>12/31/05</u>
National City Bank Sweep Account/Municipal Investment Fund	<u>\$ 2,065,062</u>	<u>\$ 1,986,136</u>

Restricted Cash – At December 31, 2006 certificates of deposit amounting to \$2,014,946 have been placed into an escrow account at National City Bank under the direction of the Director of the Michigan Department of Environmental Quality, which assures that monitoring of the landfill site will have sufficient funds if needed in future years. The director of the Department is the beneficiary on the escrow account. The escrow account was established to hold the investments/cash amounts and all earnings must accrue to the escrow account. The Director must approve any disbursements from the account as well as the County Treasurer.

The County Treasurer has the responsibility for investing Authority funds.

**MONTMORENCY-OSCODA-ALPENA  
SOLID WASTE MANAGEMENT AUTHORITY  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2006**

**NOTE B - CASH AND INVESTMENTS (CONTINUED)**

**Credit Risk**

State law limits investments in certain types of investments to a prime or better rating issued by nationally recognized statistical rating organizations (NRSRO's). The county's investments all meet State statutes.

**Interest Rate Risk**

The County has not adopted a policy that indicates how the County will minimize interest rate risk, which is the risk that the market value of securities in the portfolio will fall due to changes in market interest rates, by limiting the weighted average maturity of its investment portfolio to less than a given period of time. However, none of the investments at December 31, 2006 were subject to this type of risk.

**Concentration of Credit Risk**

The County has not adopted a policy that indicates how the County will minimize concentration of credit risk, which is the risk of loss attributed to the magnitude of the County's investment in a single issuer, by diversifying the investment portfolio so that the impact of potential losses from any one type of security or issuer will be minimized.

**Custodial Credit Risk**

The County has not adopted a policy that indicates how the County will minimize custodial credit risk, which is the risk that in the event of the failure of the counter party, the County will not be able to recover the value of its investments of collateral securities that are in possession of an outside party.

**NOTE C - PROPERTY AND EQUIPMENT**

A summary of the property, plant, and equipment of the Solid Waste Management Authority as of December 31, 2006 is as follows:

	Balance 1/1/06	Additions	Disposals	Balance 12/31/06
Land and landfill improvements	\$ 5,970,274	\$ 273,912	\$ -	\$ 6,244,186
Equipment	1,510,953	519,144	429,867	1,600,230
Total Costs	7,481,227	793,056	429,867	7,844,416
Less accumulated depreciation	5,813,741	382,216	276,344	5,919,613
Net Carrying amount	<u>\$ 1,667,486</u>	<u>\$ 410,840</u>	<u>\$ 153,523</u>	<u>\$ 1,924,803</u>

**Depreciable Life**

Landfill Improvements	based upon percentage filled
Equipment	7&10 years
Buildings	15-50 years

Depreciation expense was \$382,216 for 2006 and \$369,844 for 2005.

**MONTMORENCY-OSCODA-ALPENA  
SOLID WASTE MANAGEMENT AUTHORITY  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2006**

**NOTE D - POST EMPLOYMENT HEALTH CARE BENEFITS**

In addition to pension benefits described in Note D, the county employment agreement with the Sheriffs department employees and the personnel policy for other county employees provides for certain post employment health care coverage. All county employees must have 15 years of service and be fifty five to receive the benefits. Benefits are received for life for the retiree only. No dependent care coverage is paid for by the County. During 2006 two individuals were eligible for these benefits and the total cost incurred approximated \$10,649. This was paid on behalf of former eligible Authority employees.

**NOTE E - PENSION PLAN**

In previous years the Authority employees were participants in the Montmorency County pension plan. Pension contributions from the Authority for 2006 and 2005 respectively were \$30,577 and \$24,218. In early 2003 the Authority separated their plan from Montmorency County. The December 31, 2005 actuarial report is used in this report. The December 31, 2006 report is not yet available from MERS.

Plan Description – The Authority participates in a defined benefit retirement plan administered by the Municipal Employee's Retirement System (MERS). The plan covers substantially all full-time employees.

The Municipal Employees Retirement System of Michigan (MERS) is a multiple-employer statewide public employee retirement plan created by the State of Michigan to provide retirement, survivor and disability benefits, on a voluntary basis to the State's local government employees in the most efficient and effective manner possible. As such, MERS is a non-profit entity which has the responsibility of administering the law in accordance with the expressed intent of the Legislature and bears a fiduciary obligation to the State of Michigan, the taxpayers and the public employees who are its beneficiaries.

The passage of HB-5525/Act No. 220, with enactment on May 28, 1996, allowed the members of MERS to vote on and determine if MERS should become an independent public corporation. The vote resulted in approval to become independent of State control and MERS began to operate as an independent public corporation effective August 15, 1996. MERS issues a financial report, available to the public, that includes financial statements and required supplementary information for the system. A copy of the report may be obtained by writing to MERS at 447 N. Canal Road, Lansing, Michigan 48917.

All full time Authority employees are eligible to participate in the system. Benefits vest after ten years of service. Authority employees who retire at or after age 55 with 15 years credited service are entitled to an annual retirement benefit, payable monthly for life, in an amount equal to 2.25% of the members 5-year final average compensation.

Participating Authority employees are not required to contribute to the system. The Authority is required to contribute the amounts necessary to fund the Michigan Municipal Employees Retirement System using the actuarial basis specified by State Statute.

Actuarial Accrued Liability - The actuarial accrued liability was determined as part of an actuarial valuation of the plan as of December 31, 2005. Significant actuarial assumptions used in determining the investment of present and future assets of 8.0%, (a) inflation, and (b) additional projected salary increases of 0.0% to 4.2% per year, depending on age, attributable to seniority/merit and (c) the assumption that benefits will increase 2.5% annually after retirement.



**MONTMORENCY-OSCODA-ALPENA  
SOLID WASTE MANAGEMENT AUTHORITY  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2006**

**NOTE E - PENSION PLAN (CONTINUED)**

All entries are based on the actuarial methods and assumption that were used in the December 31, 2005 actuarial valuation to determine the annual employer contribution amounts. the entry age normal actuarial method was used to determine the entries at disclosure.

**GASB 25 INFORMATION (as of 12/31/05)**

Actuarial Accrued Liability:	
Retirees and beneficiaries currently receiving benefits	\$ 442,550
Terminated employees not yet receiving benefits	-
Non-vested terminated employees	-
Current employees:	
Accumulated employee contributions including	-
Employer financed	244,330
Total Actuarial accrued liability	<u>686,880</u>
Net Assets Available for Benefits, at actuarial value	
(Market Value is 494,198)	507,573
Unfunded (over funded) actuarial accrued liability	<u>\$ 179,307</u>

**GASB 27 INFORMATION (as of 12/31/05)**

Fiscal year beginning	January 1, 2007
Annual required contribution (ARC)	\$ 29,496
Amortization factor used	0.053632

**Contributions Required and Contributions Made**

MERS funding policy provides for periodic employer contributions at actuarially determined rates that, expressed as percentages of annual covered payroll, are designed to accumulate sufficient assets to pay benefits when due. The normal cost and amortization payment for the fiscal year ended December 31, 2005 were determined using the entry age normal actuarial funding method. Unfunded actuarial accrued liabilities, if any, were amortized as a level percent of payroll over a period of 30 years. The following table provides a schedule of contribution amounts and percentages for recent years. Only two years data is available because the Authority separated from Montmorency County in 2003.

<u>Annual Pension Cost</u>			
<u>Year Ended December 31,</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage Of APC Contributed</u>	<u>Net Pension Obligation</u>
2003	\$ 25,222	100%	-0-
2004	23,618	100%	-0-
2005	23,784	100%	-0-

The Authority was required to contribute \$23,064 for the year ended December 31, 2006. Payments were based on contribution calculations made by MERS.

**MONTMORENCY-OSCODA-ALPENA  
SOLID WASTE MANAGEMENT AUTHORITY  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2006**

**NOTE E - PENSION PLAN (CONTINUED)**

Actuarial Valuation Date December 31,	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Unfunded AAL (UAAL)	Funded Ratio	Covered Payroll	UAAL as a % Of Covered Payroll
2003	\$ 112,643	\$ 193,940	\$ 81,297	58%	\$ 159,821	51%
2004	145,128	205,430	60,302	71%	157,396	38%
2005	507,573	686,880	179,307	74%	158,129	113%

For actuarial valuation purposes, the actuarial value of assets is determined on the basis of a calculation method that assumes the fund earns the expected rate of return (8%), and includes an adjustment to reflect market value.

Actuarial assumptions for MERS valuations were revised for the 1993, 1997, and 2000 valuations. The funding method was changed to entry age normal for the 1993 valuation.

**NOTE F - CLOSURE AND POST CLOSURE CARE COSTS**

State and federal laws and regulations require that the Solid Waste Management Authority place a final cover on its landfill when closed and perform certain maintenance and monitoring functions at the landfill site for thirty years after closure. In addition to operating expenses related to current activities of the landfill, an expense provision and related liability are being recognized based on the future closure and postclosure care costs that will be incurred near or after the date the landfill no longer accepts waste. The recognition of these landfill closure and postclosure care costs is based on the amount of the landfill used during the year. The estimated liability for landfill closure and postclosure care costs has a balance of \$3,883,614 as of December 31, 2006, which is based on all cells completed except for the current cell A - Phase III which is 27.2% filled based upon engineer estimates. At recent rates of refuse received the current cell has an estimated twenty-four months remaining capacity. The estimated total current cost of the landfill closure and post closure is based on the amount that would be paid if all equipment, facilities, and services required to close, monitor, and maintain the landfill were acquired as of December 31, 2006. However, the actual cost of closure and post closure care may be higher due to inflation, changes in technology, or changes in landfill laws and regulations. A new cell is complete and began accepting waste as of February 1, 2006. As of December 31, 2006 that cell is 27.2% full according to the landfill engineer's estimate.

The Solid Waste Management Authority is required by state and federal laws and regulations to make annual contributions to finance closure and post closure care. The Authority feels it is in compliance with these requirements, and at December 31, 2006, certificates of deposit in the amount of \$2,041,946 are held for these purposes. It is anticipated that future inflation costs will be financed in part from earnings on investments. The remaining portion of anticipated future inflation costs (including inadequate earnings on investments, if any) and additional costs that might arise from changes in post closure requirements (due to changes in technology or more rigorous environmental regulations, for example) may need to be covered by charges to future landfill users, taxpayers, or both. Governmental Accounting Standards Board Statement No. 18 describes the accounting requirements for solid waste landfill closure and post closure care costs. The estimated expense for closure and post closure care costs for 2006 was \$515,399.

**MONTMORENCY-OSCODA-ALPENA  
SOLID WASTE MANAGEMENT AUTHORITY  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2006**

**NOTE G - LONG-TERM DEBT**

**CHANGES IN LONG-TERM DEBT**

	<u>12/31/05</u>	<u>Additions</u>	<u>Reductions</u>	<u>12/31/06</u>
2002 Bond	340,000	-0-	165,000	175,000
Lease/Purchase	<u>451,002</u>	<u>127,352</u>	<u>271,311</u>	<u>307,043</u>
Total	<u>\$ 791,002</u>	<u>\$ 127,352</u>	<u>\$ 436,311</u>	<u>\$ 482,043</u>

**DESCRIPTION** - Series 2002 General Obligation Limited Tax Bonds were issued to be used to finance the cost of a new landfill cell. It is anticipated that revenue from the Authority will be sufficient to repay the bonds as they come due, however, the three counties involved have pledged to levy ad valorem taxes if necessary to repay the bonds.

<u>Year</u>	<u>Interest Rates</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2007	3.10%	<u>175,000</u>	<u>5,425</u>	<u>180,425</u>
Total		<u>\$ 175,000</u>	<u>\$ 5,425</u>	<u>\$ 180,425</u>

**DESCRIPTION** - In 2006 a 730 Caterpillar truck was purchased with CAT Financial providing the financing. A Bomag compactor was purchased in 2002 with Old National Bank providing the financing. In 2004 a 980GII loader was purchased with CAT Financial providing the lease/financing. The 980G11 contract calls for a balloon payment of \$126,000 on June 20, 2007. The CAT financial lease on the truck provides for even monthly payments with no balloon and a payoff on August 10, 2010. The Old National Bank lease requires 5 payments beginning in January of 2003. The equipment has been capitalized and the outstanding balances are shown as installment loans in the financial statements. Interest rates vary between 3.75% and 5.8%.

<u>Interest Rates</u>	<u>Outstanding 12/31/06</u>	
	<u>Principal</u>	<u>Interest</u>
3.75/5.8	<u>\$ 307,043</u>	<u>\$ 18,025</u>
Total	<u>\$ 325,068</u>	

**Equipment Lease/Purchase Annual Debt Service Requirements**

	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>Total</u>
Principal	\$ 218,911	\$ 31,466	\$ 33,341	\$ 23,325	\$ 307,043
Interest	<u>10,821</u>	<u>4,284</u>	<u>2,410</u>	<u>510</u>	<u>18,025</u>
Total	<u>\$ 229,732</u>	<u>\$ 35,750</u>	<u>\$ 35,751</u>	<u>\$ 23,835</u>	<u>\$ 325,068</u>

Monthly payments on the equipment are as follows:

980GII wheel loader	\$ 3,031
730 Caterpillar truck	<u>2,979</u>
	<u>\$ 6,010</u>

Annual payment on Bomag compactor is:  
\$ 52,827

**MONTMORENCY-OSCODA-ALPEN  
SOLID WASTE MANAGEMENT AUTHORITY  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2006**

**NOTE G - LONG-TERM DEBT (CONTINUED)**

Long-Term Debt annual Debt Service Requirements

	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>Total</u>
Principal	\$ 393,911	\$ 31,466	\$ 33,341	\$ 23,325	\$ 482,043
Interest	<u>16,246</u>	<u>4,284</u>	<u>2,410</u>	<u>510</u>	<u>23,450</u>
Total	<u>\$ 410,157</u>	<u>\$ 35,750</u>	<u>\$ 35,751</u>	<u>\$ 23,835</u>	<u>\$ 505,493</u>

Long-Term Debt Summary

	<u>12/31/06</u>	<u>12/31/05</u>
2002 General Obligation Limited Tax Bonds	\$ 175,000	\$ 340,000
Installment Loans	<u>307,043</u>	<u>451,002</u>
Total Debt	482,043	791,002
Less Current Portion	<u>(393,911)</u>	<u>\$ (295,127)</u>
Net Long-Term Debt	<u>\$ 88,132</u>	<u>\$ 495,875</u>

**NOTE H - RISK MANAGEMENT**

The Authority is exposed to risks of loss related to theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The government manages its risk exposures and provides certain employee benefits through a combination of self-insurance programs, risk management pools and commercial insurance and excess coverage policies. Following is a summary of these self-insurance programs and risk management pool participation.

The Authority participates in the Michigan Municipal Risk Management Authority (MMRMA) for general liability and property damage coverage. The MMRMA was established in January 1980, pursuant to laws of the State of Michigan which authorize local units of government to jointly exercise any power, privilege or authority which each might exercise separately. The purpose of the Authority is to provide cooperative and comprehensive risk financing and risk control services. The MMRMA provides risk management, underwriting, reinsurance and claim review and processing services for all member governments pursuant to its charter.

The government makes annual contributions to MMRMA based on actuarial studies using historical data and insurance industry statistics. These contributions are paid from the general fund (i.e., the Insurance Fund) using premiums paid into it by other funds of the government. Such contributions as received by MMRMA are allocated between its general and member retention funds. Economic resources in the MMRMA's general fund are expended for reinsurance coverage, claim payments and certain general and administrative costs. The Authority is a State pool member and has deductibles which differ for each type of coverage.

The Authority is a member of the Michigan Counties Workers' Compensation Fund. Full statutory coverage for worker's disability compensation and employers' liability is guaranteed by the fund for Michigan operations through authority granted by the State of Michigan under Chapter 6, Section 418.611.

At December 31, 2006, there were no claims which exceeded insurance coverage. The Authority had no significant reduction in insurance coverage from previous years.

## **SUPPLEMENTARY INFORMATION**

**MONTMORENCY-OSCODA-ALPENA  
SOLID WASTE MANAGEMENT AUTHORITY  
SCHEDULE OF EXPENSES BY FUNCTION  
DECEMBER 31, 2006 AND 2005**

	<u>Total</u>	<u>Landfill Operation</u>	<u>Resource Recovery</u>
Operating Expenses:			
Salaries and wages	\$ 234,252	\$ 195,992	\$ 38,260
Fringe benefits	131,277	113,254	18,023
Other operating expenses	627,297	582,595	44,702
Supplies	97,509	89,873	7,636
Depreciation	382,216	378,277	3,939
Landfill closure and post closure care costs	<u>515,399</u>	<u>515,399</u>	<u>-</u>
 Total Operating Expenses	 <u>\$ 1,987,950</u>	 <u>\$ 1,875,390</u>	 <u>\$ 112,560</u>

See Notes to Financial Statements

**MONTMORENCY-OSCODA-ALPENA  
SOLID WASTE MANAGEMENT AUTHORITY  
COMPARATIVE SCHEDULE OF SUPPLIES AND OPERATING EXPENSES  
LANDFILL OPERATION  
DECEMBER 31, 2006 AND 2005**

	<u>SUPPLIES</u>	
	12/31/06	12/31/05
Office supplies/postage/printing	\$ 10,360	\$ 2,829
Other supplies/uniforms	9,981	5,222
Diesel fuel	63,117	52,439
Heating fuel	3,049	2,121
Electricity	3,366	2,257
Total Supplies	<u>\$ 89,873</u>	<u>\$ 64,868</u>

	<u>OTHER OPERATING EXPENSES</u>	
Legal fees and professional	\$ 8,700	\$ 7,168
Administrative fees	18,000	18,000
Engineering services/consultant	38,991	12,700
Ground water data costs	26,156	30,065
Secondary collection	13,100	-
Leachate hauling	167,682	62,554
Leachate testing	6,912	1,386
On site leachate treatment	14,619	5,522
Leachate treatment	120,309	52,682
Monitoring well testing	69,045	33,418
Repairs and maintenance	36,461	52,167
Communications	4,279	2,445
Liability insurance	17,222	17,090
Loud Township fee	14,838	14,497
Solid waste administration fee/surcharge fee/license fee	10,387	10,148
Travel/conferences/seminars	13,605	7,471
Other	2,289	615
Total Other Operating Expenses	<u>\$ 582,595</u>	<u>\$ 327,928</u>

See Notes to Financial Statements

**MONTMORENCY-OSCODA-ALPENA  
SOLID WASTE MANAGEMENT AUTHORITY  
SCHEDULE OF SUPPLIES AND OPERATING EXPENSES  
RESOURCE RECOVERY OPERATION  
DECEMBER 31, 2006**

	<u>SUPPLIES</u>	<u>12/31/06</u>
Office supplies/postage/printing	\$	604
Other supplies/uniforms		1,764
Diesel fuel / other fuel		2,247
Electricity		<u>3,021</u>
 Total Supplies	 \$	 <u>7,636</u>

	<u>OTHER OPERATING EXPENSES</u>	
Legal fees and professional	\$	923
Freon removal, appliance recycling		5,541
Electronic recycling		4,717
Drug and lab disposal		5,372
Tipping fees		13,164
Compactor lease		2,320
Transportation charges		3,564
Advertising and publishing		1,159
Repairs and maintenance		2,899
Communications		672
Liability insurance		972
Travel/conferences/seminars		950
Other		<u>2,449</u>
 Total Other Operating Expenses	 \$	 <u>44,702</u>

The Resource Recovery operation began January 1, 2006 so no comparative data for fiscal year 2005 is available.

See Notes to Financial Statements





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### **FINANCIAL AUDIT COMMENTS**

June 21, 2007

Montmorency-Oscoda-Alpena  
Solid Waste Management Authority  
6751 Landfill Road  
Atlanta, Michigan, 49709

In planning and performing my audit of the component unit financial statements of Montmorency-Oscoda-Alpena Solid Waste Management Authority, for the year ended December 31, 2006, I considered its internal control structure in order to determine my auditing procedures for the purpose of expressing my opinion on the financial statements and not to provide assurance on the internal control structure. However, I noted certain matters involving the internal control structure and its operation that I feel should be brought to your attention as follows:

#### **CREDIT CARD POLICY**

Public Act 266 of 1995 requires all governmental entities using a credit card to have adopted by resolution, a written policy with certain specific provisions. The authority presently uses a credit card and has not adopted the required resolution.

#### **MILEAGE REIMBURSEMENT**

The Department of Treasury has recently attempted to clarify the legality of payment for mileage reimbursement from home to the County building and back for County meetings. County commissioners can receive these reimbursements, however, it is Treasury's position that this is a personal expenditure under Internal Revenue Service guidelines as well as Michigan Income Tax requirements and should be included in the commissioner's W-2 as wage. The Authority does not include these amounts in the W-2.

It is further their position that non-commissioners appointed to various boards such as housing, jury, etc. are not permitted to receive a mileage allowance from home to the County facility. In the case of the Authority, the question is whether the board members are acting as commissioners or simply as board members of this legally created entity.

#### **LONG-TERM DEBT**

The long-term debt total at December 31, 2006 is \$482,043 which has decreased by \$308,959 over the prior year. This debt still includes \$175,000 plus interest on the bonds for cell-A phase II, which was full at the end of last year (December 31, 2006). The debt has been dramatically reduced, and by self funding the construction of the most recent cell, this should increase the Authority cash flow over the next several years.

MEMBER: AMERICAN INSTITUTE OF CPAS & MICHIGAN ASSOCIATION OF CPAS

### **ACCOUNTING PROCEDURES / BUDGETING / CASH FLOW PROJECTIONS**

The Authority needs to change its method of recording and processing certain accounting transactions. For example, during 2006 equipment purchases were charged as an expense but should have been capitalized as a fixed asset to be depreciated. The bond principle payments were classified as an expense and should have been posted as a reduction in the liability accounts and the payments on the equipment lease/purchases should be separated between interest and principle and posted to interest expense and as a debit to the liability account rather than the entire payment being posted as an expenditure.

Your present budget has line items for expenditures such as debt payments and capital outlay. An enterprise fund should budget instead for depreciation. In addition to the budget a cash flow projection should be prepared to account for debt payments and capital expenditures.

A cash flow projection would assist your administrator and the County Treasurer to better predict when cash will be needed for operations, debt payments and capital expenditures. By monitoring these projections your National City sweep account could be invested for longer periods and generate higher interest returns for the Authority.

### **BAD DEBT / ACCOUNTS RECEIVABLE**

Based on my discussion with your administrator it appears that at least one of your accounts receivable is uncollectible. By board resolution this account should be written off and charged to a bad debt expense account.

### **REIMBURSEMENT FOR MEALS**

The Authority established a maximum reimbursement amount for meals at a rate not to exceed \$30.00 per day. The assumption would be that this must include all three meals when out of town overnight. I noted several instances where Authority personnel received reimbursement for single meals which exceeded the \$30.00 limit.

This report is intended solely for the information and use of Montmorency-Oscoda-Alpena Solid Waste Management Authority, management, and others within the administration as well as the Michigan Department of Treasury, and is not intended to be and should not be used by anyone other than these specified parties.



THOMAS R. ZICK, CPA, P.C.  
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